



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

PROPOSAL FOR DECISION

RULE 37 CASE NO. 0278610

STATUS NO. 748996

District 03

APPLICATION OF MEGO RESOURCES, LLC FOR A WELL SPACING AND DENSITY EXCEPTION FOR THE OL ARMY UNIT WELL NO. 1, FOR THE WILDCAT AND BEVANS RANCH (2200) FIELDS IN GRIMES COUNTY, TEXAS

FOR APPLICANT:

Philip Whitworth, Attorney at Law
Roger S. Braugh

FOR PROTESTANT:

Gary Corzine, President
Clay Exploration, Inc.

PROCEDURAL HISTORY

DATE APPLICATION FILED:	September 27, 2012
DATE OF NOTICE OF HEARING:	November 12, 2012
DATE OF HEARING:	December 3, 2012
DATE TRANSCRIPT RECEIVED:	December 10, 2012
RECORD RE-OPENED:	January 17, 2013
RECORD CLOSED:	January 22, 2013
HEARD BY:	Terry J. Johnson, Hearings Examiner Andres J. Trevino, Technical Examiner

CASE SUMMARY

This is an application for a spacing and density exception for the first well on a 10-acre tract. Applicable field rules call for 40-acre density and 467-foot lease-line spacing. Because of its small size, the tract will not support a regular location. By rule, the tract is entitled to a well because it took its present form prior to the attachment of field rules. The tract was created in 1876.

APPLICANT'S CASE

Mego Resources, LLC (Mego) is the contract operator for mineral estate leaseholder Santa Rosa Operating, LLC (Santa Rosa). Santa Rosa also operates wells that offset the subject tract. Roger Braugh, a Texas attorney who was offered as an expert witness on Texas title law, testified on behalf of Mego. Mr. Braugh is president of Santa Rosa.

Mego proposes to drill a 3,700-foot vertical well into the Bevans Ranch (2200) and Wildcat fields in Grimes County, Texas. The well needs an exception to the lease-line spacing requirements because it will be located 195 feet from the nearest lease line. Field rules require minimum spacing of 467 feet. The well also requires a density exception because its 10.09-acre drill-site tract is less than the 40 acres called for by the field rules.

THE TRACT

Mr. Braugh conducted the title research on the land at issue. He testified that the subject tract assumed its present size and shape on September 8, 1876, one hundred years prior to the August 1976 discovery of the Bevans Ranch (2200) field and 43 years prior to the November 26, 1919 adoption of the first statewide spacing rules.

Mr. Braugh testified that the tract is subsumed within 462 acres situated in the northwest corner of the A. U. Springer survey. He stated that the subject tract's southern boundary was created on December 27, 1849 when 300 acres was conveyed by sheriff's deed to one Erastus Stoneham (the Stoneham tract). The eastern boundary, he testified, was formed on April 6, 1869 with the conveyance of a 50-acre parcel from W. N. Saunders to George Phillips (the Phillips tract).

Mr. Braugh testified that the western and northern boundaries were created by the conveyance of a 107-acre parcel, later corrected to 102.953 acres (the Todd tract). On February 29, 1876 W. N. Saunders conveyed a partial interest in this tract to J. B. Todd. Six months later, on September 8, 1876, Saunders conveyed to Todd the remaining interest in the tract. This transaction left the subject 10.09-acre tract, which was conveyed by W. N. Saunders to C. J. Saunders on September 5, 1895.

DRILL-SITE LOCATION

The subject tract is a rectangle, with the long sides running east to west. Because of its size, there is no regular location on the tract. The proposed well is centered between the north and south lease lines at 195 feet from each. Field rules require minimum 467-foot spacing.

The proposed location is approximately 633 feet from the west line and 467 feet from the

east line. This location favors Protestant's interests, which are to the west. The site was chosen to place the wellhead as far as possible from a housing subdivision and to avoid a low area near the center of the tract that drains to a nearby lake. The tract is heavily forested and the proposed location will maximize the conservation of the trees growing on the site.

PROTESTANT'S CASE

Clay Exploration, Inc. (Clay) is in litigation with Mego regarding the 102-acre tract that adjoins the subject tract. Clay offered no independent evidence and did not challenge or contradict the testimony and exhibits introduced by Mego.

DISCUSSION AND RECOMMENDATION

This case arises because Mego's drill site tract is too small to support a well location that complies with the 467-foot lease-line spacing and 40-acre well density requirements applicable to the targeted fields. The tract is substandard in two respects.

First, the north and south lease lines of this rectangular tract are only 390 feet apart. While there is room for a regular location between the east and west lines, there is no location on the tract that is regular for the north and south lines. Next, the tract is 10.09 acres, one-fourth of the field rule minimum for a well.

Under the Voluntary Subdivision Rule, a substandard tract is generally not entitled to a well.¹ However, where the tract is shown to have assumed its present form before the field rules attached, it is entitled to a first well in order to prevent confiscation by neighboring wells. The record in this case supports the conclusion that the tract at issue has been in its present size and shape since 1876.

TRACT ENTITLED TO FIRST WELL

The boundaries of the subject tract were created between 1849 and 1876 by separate conveyances of the three parcels of land that surround it.

On December 27, 1849, a sheriff's deed conveyed a 300-acre parcel that abuts the subject tract on the south. This land was not under common ownership with the subject tract. In fact, it was litigation over ownership of the 300 acres that led to its disposal by sheriff's deed. In any event, the 1849 conveyance of the Stoneham tract created the south boundary of the subject tract.

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See, 16 TEX. ADMIN. CODE § 3.37(g) Adopted by the Commission on May 29, 1938, the rule is intended to prohibit acreage manipulation that would circumvent spacing and density rules. It denies a confiscation-based exception for a first well on any substandard tract that is created after field rules have attached.

On April 6, 1869, W. N. Saunders conveyed to George Phillips the 50-acre parcel that abuts the subject tract on the east. This 1869 conveyance of the Phillips tract created the east boundary of the subject tract.

The Todd tract abuts the subject tract on the west and the north. This land was, in the day, identified as 107 acres. Modern surveying techniques have shown that it amounts to 102.953 acres. On February 29, 1876, W. N. Saunders conveyed a partial interest in this parcel to J. B. Todd. The remaining interest was conveyed from Saunders to Todd on September 8, 1876. The Todd tract acreage did not include the subject 10-acre tract, but instead created the north and west boundaries of the subject tract. W. N. Saunders would hold this 10-acre tract for 19 more years before he conveyed it to C. J. Saunders on September 5, 1895.

In the opinion of the Examiners, the subject tract assumed its present form on September 8, 1876 and has not been under common ownership and control with the surrounding tracts since that date. The record also shows that the Bevans Ranch (2200) field was not discovered until August 1976, some 100 years after the tract was created. The subject tract also assumed its present form long before November 26, 1919, the date of the Commission's adoption of the first statewide spacing rule. Therefore, the tract assumed its present form before any spacing and density rules attached. The tract is entitled to a first well in order to prevent confiscation of hydrocarbons and to protect the correlative rights of the mineral estate.

WELL LOCATION REASONABLE

The proposed location is centered between the north and south lease lines. The site is not centered between the east and west lines but is 467 feet from the east lease line. If it was centered on the tract, the well would be closer to the west line and closer to Protestant's interests. In addition, the site not only places the well away from a residential development and safely out of a surface depression that drains to a lake but also minimizes the drilling operation's impact on the heavily forested tract.

In the opinion of the examiners, the proposed location is reasonable. Accordingly, it is recommended that the Commission adopt the findings and conclusions set out below and enter a final order granting the relief sought in the present docket.

FINDINGS OF FACT

1. At least ten (10) days notice of hearing was provided to all affected persons.
2. Mego Resources, LLC (Mego) seeks a drilling permit authorizing an exception to the spacing and density requirements for its OL Army Unit, Well No. 1, a proposed

vertical well to be drilled in the Bevans Ranch (2200) and Wildcat fields, Grimes County, Texas.

3. Mego proposes to drill on a 10.09-acre tract; applicable field rules that call for a 40-acre drill site.
4. The subject tract is located in the northwestern corner of the A. U. Springer survey in Grimes County, Texas.
5. The southern boundary of the subject tract was formed on December 27, 1849 when the 300-acre parcel that adjoins the tract on the south was conveyed by sheriff's deed to Erastus Stoneham.
6. The eastern boundary of the subject tract was formed on April 6, 1869 when the 50-acre parcel that adjoins the tract on the east was conveyed by W. N. Saunders to George Phillips.
7. The Todd tract abuts the western and northern boundaries of the subject tract.
8. The Todd tract, originally identified as 107 acres, is shown by modern surveying techniques to contain 102.953 acres.
9. W. N. Saunders conveyed a partial interest in the Todd tract to J. B. Todd on February 29, 1876; Saunders conveyed the remaining interest to Todd on September 8, 1876.
10. The subject tract assumed its present size and shape on September 8, 1876.
11. The subject tract has not been united under common ownership and control with the surrounding tracts since September 8, 1876.
12. The Bevans Ranch (2200) field was discovered in August 1976.
13. The subject tract assumed its present size and shape prior to the attachment of field rules for the Bevans Ranch (2200) field.
14. The Commission adopted the original statewide spacing rule on November 26, 1919.
15. The subject tract assumed its present size and shape prior to the attachment of the original statewide spacing rule.
16. The subject tract is entitled to a first well in order to prevent confiscation and to protect the correlative rights of the mineral estate.
17. The subject tract is a rectangle with the long sides running east to west.

18. Applicable field rules require minimum lease-line spacing of 467 feet; there is no location on the tract that satisfies this requirement.
19. The proposed well is centered between the north and south lease lines, 195 feet from each.
20. The well is located 467 feet from the east lease line and 633 feet from the west line.
21. The proposed location places the wellhead as far as possible from a nearby residential development while avoiding a low area that drains to a nearby lake; the location also maximizes conservation of trees on this heavily forested tract.
22. The proposed location is reasonable.
23. Approval of the pending application will avoid confiscation of hydrocarbons and protect the correlative rights of the mineral estate.

CONCLUSIONS OF LAW

1. Proper notice of hearing was timely issued by the Railroad Commission to appropriate persons legally entitled to notice.
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed.
3. Approval of the pending application for the OL Army Unit, Well No. 1 in the Bevans Ranch (2200) and Wildcat fields, Grimes County, Texas is necessary to prevent confiscation and to protect correlative rights.

Respectfully submitted on this the 15TH day of FEBRUARY, 2013.



Terry J. Johnson

Hearings Examiner



Andres J. Trevino
Technical Examiner